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S E C R E T SECTION 01 OF 03 VIENNA 001717

SIPDIS

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TAGS: ECON EFIN IR AU  
SUBJECT: IRAN/FATF: FOLLOW-UP WITH GOA AND RAIFFEISEN BANK

REF: A. A) STATE 115523  
    B. B) VIENNA 1643 (NOTAL)  
    C. C) VIENNA 1414

Classified By: DCM SCOTT KILNER, FOR REASONS 1.5 B,D

¶1. (S) SUMMARY. Embassy followed up again with GOA and Raiffeisen officials to press for strong implementation of FATF Iran recommendations. GOA reps say Austria already implements virtually all of the measures in Ref A demarche. Raiffeisen gave us recent data they believe support their assertion that the bank's Iran business is modest and shrinking. Raiffeisen also signaled its reluctance to take any additional measures. END SUMMARY.

GOA Follow-up

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¶2. (S) Following ref B meetings, Econ Chief met with MFA Section Head Dr. Marcus Bergmann to review GOA implementation of FATF recommendations and the measures advocated in Ref A demarche.

Speaking also for the Austrian MinFin, Bergmann detailed how the GOA has implemented each measures on its own or via EU regulations adopted at the November 10 GAERC.

GOA REPLIES KEYED TO REF A DEMARCHE:

    A) Require financial institutions (FIs) to identify clients and beneficial owners (...)

GOA REPLY: Already in place via Federal Banking Law article ¶40.

    B) Require FIs to review, and if necessary, terminate existing correspondent account relationships based upon a risk assessment (...)

GOA REPLY: Already in place via Federal Banking Law articles 40B and 41/1.

    C) Enhance reporting requirements for financial transactions involving Iran, including requiring systematic reporting of transactions (...)

GOA REPLY: Now in place via EU regulations implementing that August 2008 Common Position

    D) Restrict financial transactions with Iran or persons in Iran (...)

GOA REPLY: Same as C)

E) Deny any requests by Iranian banks to establish a subsidiary, branch, or representative office in the host country (...)

GOA REPLY: There is no such presence in Austria and the FMA exercises stringent oversight before issuing any license, making it "highly unlikely" that Iranian banks could establish a presence in Austria.

F) Deny requests by Iranian FIs to enter into joint ventures with or purchase a controlling stake in any host country financial institution (...)

GOA REPLY: Same as E)

G) Warn those commercial sectors with significant business ties with Iran that transactions with individuals or entities from Iran have a heightened risk of money laundering or terrorist financing;

GOA REPLY: Austrian authorities sent written warnings to banking and commercial associations in March and October 2008, instructing them to warn member firms of the risks in dealing with Iranian customers. The FMA has also made informal

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representations as banking supervisor.

H) Place existing Iranian branches and subsidiaries in the UK, France, Germany and Rome under the control of relevant competent authorities (...)

GOA REPLY: n/a

¶3. (S) On Raiffeisen's Iran business, Bergmann said the GOA had contacted RZB following ref A demarche, advising them to be forthcoming with USG authorities. Bergmann opined that a direct dialogue between USG and Raiffeisen continues to be the preferred path.

Raiffeisen: We're Small Fry / Iran Business Shrinking

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¶4. (S) On November 14, Ambassador, DCM, and Econ Unit Chief met with Raiffeisen Zentralbank (RZB) General Counsel Friedrich Sommer (a regular interlocutor) at the Embassy to reiterate USG concerns and seek updated data on Raiffeisen's Iran business.

The Ambassador emphasized that the USG remains very concerned about that business, and that RZB continues to run serious reputational risks.

¶5. (S) Sommer presented a data table (PROVIDED TO TREASURY/J. BURKE) on RZB's recent business with Iran, stating that "we want to convince you that RZB is not a big player" with Iranian banks, and that recent controls are showing effects. RZB's Iran trade financing business has declined considerably, Sommer said. As of November 7 only EUR 153 million was outstanding (NOTE: in

2007, RZB issued a total of EUR 692 million in import/export letters of credit/collections for Iran-related business). Its commercial financing is tiny: EUR 9 million as of November 7. In October 2007, RZB handled payment transactions of about EUR 200 million; Sommer stated that this represented a decrease from recent months, but could not say how much. Embassy reps asked whether whether RZB could provide more detailed data on its payments/correspondent business (such as a comparative time series), as this was a key element of USG concerns. Sommer took the request under advisement.

¶ 6. (S) Sommer distinguished between RZB's payments business and its money market accounts for Iranian customers, saying that the latter should not elicit controversy. Like others, Iranian banks seek good returns on their Euro-denominated assets so their account balances fluctuate based on market conditions. Particularly given the financial crisis, RZB is not inclined to turn away legitimate depositors seeking a market rate of return. With respect to other lines of business, however, Sommer said RZB would like to hear our remaining concerns, if any.

¶ 7. (S) Sommer reviewed RZB's record of engagement with the USG and expressed confidence that the bank's internal measures implemented this past summer would continue to keep its Iran business in check. The bank had signaled to its Iranian customers that it would not become their sole partner in Europe for payments and is exercising extreme scrutiny.

Raiffeisen to Lobby GOA  
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¶ 8. (S) In a follow-up conversation with DCM, Sommer indicated that RZB is likely to stay its current course. He said that Raiffeisen International CEO Herbert Stepic would soon engage

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the Austrian MFA and FinMin on the recent USG demarche. In response to DCM's question, Sommer stated that Raiffeisen would not/not be providing more detailed payments data (para 5), as "this would be a violation of Austrian bank secrecy laws."

¶ 9. (S) COMMENT: Stepic, a heavyweight in the Austrian financial world, will undoubtedly convey Raiffeisen's "frustration" over U.S. pressure and seek GOA support in pushing back against our requests. END COMMENT.  
GIRARD-DICARLO